CITY OF HAMILTON
CORPORATE SERVICES DEPARTMENT
Financial Planning, Administration and Policy Division

TO:	Mayor and Members General Issues Committee
COMMITTEE DATE:	May 17, 2023
SUBJECT/REPORT NO:	2023 Tax Policies and Area Rating (FCS23049) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Gloria Rojas (905) 546-2424 Ext. 6247
SUBMITTED BY: **SIGNATURE:**	Mike Zegarac General Manager, Finance and Corporate Services Corporate Services Department

RECOMMENDATION(S)

(a) That the following optional property classes be continued for the 2023 taxation year:

- (i) Parking Lot and Vacant Land;
- (ii) Large Industrial;

(b) That, the following final tax ratios be established for the 2023 taxation year:

(i)	Residential	1.0000
(ii)	Multi-Residential	2.2174
(iii)	New Multi-Residential	1.0000
(iv)	Commercial	1.9800
(v)	Parking Lot and Vacant Land	1.9800
(vi)	Industrial	3.1025
(vii)	Large Industrial	3.6381
(viii)	Pipeline	1.7947
(ix)	Farm	0.1767
(x)	Managed Forest	0.2500
(xi)	Landfills	2.9696

(c) That the following tax reductions be established for the 2023 taxation year:

(i)	Farmland awaiting development (1st Subclass)	25%
(ii)	Farmland awaiting development (2nd Subclass)	0%
(iii)	Excess land Subclass (Residual Commercial)	0%
(iv)	Excess land Subclass (Residual Industrial)	0%
(v)	Vacant land Subclass (Residual Industrial)	0%
(vi)	Excess land Subclass (Large Industrial)	0%

(d) That the Deferral of Tax Increases for Seniors and Low Income Persons with Disabilities Program (Deferral of Tax Increases Program) be continued for the 2023 taxation year;

(e) That the Full Tax Deferral Program for Seniors and Low Income Persons with Disabilities Program (Full Tax Deferral Program) be continued for the 2023 taxation year;

(f) That the Seniors' (65+) Tax Rebate Program be continued for the 2023 taxation year;

(g) That the 40% Tax Rebate for eligible charities and similar organizations be continued for the 2023 taxation year;

(h) That, for the 2023 taxation year, the Area Rated Levies be approved as identified in Appendix "A" to Report FCS23049, "2023 Tax Policies and Area Rating", attached hereto;

(i) That the City Solicitor be authorized and directed to prepare all necessary by-laws, for Council approval, for the purposes of establishing the tax policies and tax rates for the 2023 taxation year.

EXECUTIVE SUMMARY

Report FCS23049 highlights the tax policy tools and options for the current taxation year and includes tax impacts. Some of the policies included in Report FCS23049 have been previously approved by Council. Table 3 in the "Analysis and Rationale for Recommendation(s)" section of Report FCS23049 provides details of all the tax policies being recommended.

As identified in Table 1, the combined impacts of the final approved 2023 Tax Supported Operating Budget, inclusive of the final growth, tax policies and education impacts resulted in a total City-wide residential tax impact of 5.8% or $260 for the average residential property valued at $385,000. This is equivalent to a $68 increase for every $100,000 of assessment.

Table 1
2023 Average Residential Tax Impact

	$	%
Municipal Taxes	260	6.6%
Education Taxes	-	-0.9%
Total Taxes	260	5.8%

The tax impact identified in Table 1 is simply a City-wide average. Area rating, tax policies and reassessment results in varying tax impacts throughout the City and on a property-by-property basis. The tax impacts of the changes approved to area rating through reports "Area Rating Review (FCS21078(b))" and "Area Rating Review (FCS21078(d))" are included in the average residential tax impacts by ward and area rating scenarios shown in Appendix "B" to Report FCS23049, "2023 Tax Policies and Area Rating".

Table 2 identifies the 2023 total average tax impacts by property class.

Table 2
Total Tax Impact by Class

	Municipal				Total Incl. Education
	Reassessment	Tax Policy	Budget + AR	Total	
Residential	0.0%	0.0%	6.6%	6.6%	**5.8%**
Multi-Residential	0.0%	0.0%	0.9%	0.9%	**0.9%**
Commercial	0.0%	0.0%	6.7%	6.7%	**4.7%**
Industrial	0.0%	0.0%	3.0%	3.0%	**2.4%**
Farm	0.0%	0.0%	5.5%	5.5%	**4.4%**

Note: Anomalies due to rounding

As shown in Table 2, the average tax impacts vary between property classes. For 2023, tax impacts vary as a result of budgetary changes, changes in the methodology of area rating and the provincially legislated restrictions on the Multi-Residential and the Industrial property classes.

Under the Ontario Government's four-year reassessment cycle, property values were expected to be updated in 2020 for the 2021-2024 cycle. However, as part of "Ontario's Action Plan: Responding to COVID-19" announced on March 25, 2020, the Provincial government postponed the reassessment planned for 2020. On November 4, 2021, the Ontario Government released the 2021 Ontario Economic Outlook and Fiscal Review announcing that Property assessments for the 2022 and 2023 tax years will continue to be based on the same valuation date that was used for 2020 (valuation as of January 1, 2016). The 2023 assessment roll has been updated to reflect assessment changes due to net growth, appeals and request for reconsiderations and the impact of such changes is included in the tax impacts as presented.

The final tax impact also includes the effect of the Provincial legislation as it relates to the Multi-Residential property class, in which municipalities with a Multi-Residential tax ratio above 2.0 are not allowed to pass reassessment related increases to the class and are also subject to a full levy restriction. In addition, the Industrial property class continues to be restricted and levy increases cannot be more than 50% of the increase passed onto the Residential property class. Overall, the tax impact varies significantly between classes.

The 2023 Municipal Tax impact for the Residential property class is 6.6%, which is the net result of the budgetary increases and the shifts due to changes in area rating. The total 2023 tax impact for municipal and education taxes is 5.8%.

The Multi-Residential property class, including properties in the Multi-Residential and New Multi-Residential property classes, is experiencing a 0.9% tax increase with respect to 2022. This increase is exclusively as a result of changes in the area rating methodology of the fire service. The City continues to be compliant on the full levy restriction established in 2017 and no budgetary increases were passed onto the Multi-Residential property class.

The Commercial property class is experiencing a Municipal Tax impact of 6.7% which is the combined impact of the tax shift as a result of the changes in area rating and the budget increase. Including Education Taxes, the total impact is 4.7%.

The Industrial property class is experiencing a Municipal Tax increase of 3.0%, which as mandated by the Provincial levy restriction, is one half of the budgetary increase to the Residential property class. Including Education Taxes, the total impact is 2.4%

The Municipal Tax impact for the farm class is 5.5%. However, normally farm properties also have a residential component and the combined impact is, therefore, below the 5.5% shown in Table 2 for the farm property class. Also, the City's low farm tax ratio of 0.1767, helps to limit the actual tax impact in dollars. The total tax impact including education is 4.4%.

Alternatives for Consideration - Not Applicable

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: Current and future tax policies impact the City financially in terms of revenue streams and their sources. The policies recommended in Report FCS23049 have no budget impact since they have all been incorporated into the 2023 approved budget. The benefits of assessment growth have been used to offset the 2023 budgetary pressures.

Staffing: None

Legal: The policies included in Report FCS23049 are recommended in accordance to the legislative requirements contained in the *Assessment Act, 2001.*

HISTORICAL BACKGROUND

Each year, staff brings forward tax policy options as part of the overall annual budget approval. The tax policies being recommended are consistent with the assumptions used when identifying tax impacts to Council during the 2023 budget process.

In 2011, significant changes were approved by Council to the method used for the area rating of specific services. Since that time, Recreation, Fire, Sidewalks and Streetlighting have been area rated based on an urban / rural model. Parkland Purchases, Sidewalk Snow Clearing (Ancaster only) and Transit (urban area only) continued to be area rated by the former area municipality.

On March 30, 2022 through Report FCS21078(b), "Area Rating Review", Council approved the following changes to area rating policies:

- Elimination of the area rating of Sidewalk Snow Removal in the 2023 tax year;
- Elimination of the area rating of Recreation, Sidewalks and Streetlighting in a four-year phase-out period starting in the 2022 tax year;
- Elimination of the area rating of Parkland Purchases once the existing internal debt has been paid off.

On February 17, 2023 through Report FCS21078(d), "Area Rating Review", Council approved the following changes to area rating policies:

- Changing the area rating of the Fire Service to a "Full Time / Composite / Volunteer" model in the 2023 tax year to align with the existing boundaries of the Fire Response Type;
- Phasing-out the tax impacts of the properties in the full-time level of service and those moving from Full Time to Composite level of service, over a two-year period starting in the 2023 tax year;
- The tax impact of properties in the Volunteer level of service and those changing from Volunteer to Composite be effective in 2023.

The final 2023 tax impacts identified in Report FCS23049 incorporate assessment growth, reassessment, budget, tax policies, area rating changes and the education tax.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

Report FC23049 recommends continuation of several existing tax policies and a number of tax policy updates for the 2023 taxation year in accordance with the requirements outlined in the *Assessment Act, 2001.*

RELEVANT CONSULTATION

Staff from the Taxation Section and the Legal and Risk Management Services Division, have been consulted on the preparation of the tax policies.

For the changes in area rating, staff consulted with the Fire Department and with the Transit section.

ANALYSIS AND RATIONALE FOR RECOMMENDATION(S)

Table 3 details the recommendations for the 2023 tax year for each of the tax policy tools available to municipalities.

Table 3

Tax Policy Tool	Mandatory vs. Discretionary	Recommendation
Tax Ratios	Mandatory Discretionary	• Reduction of the Multi-Residential tax ratio to adhere to Provincial legislation that prevents municipalities from passing on any reassessment and budgetary related increases onto this class. • Reduction of the Industrial tax ratio to adhere to the levy restriction and only pass on 50% (maximum allowable) of the residential budgetary tax increase. • Commercial tax ratio to continue at the Provincial threshold (Discretionary).
Optional Property Classes	Discretionary	• Maintain existing Parking Lot and (Commercial) Vacant Land and Large Industrial optional property classes. • The City has not adopted the small-scale on-farm business subclasses or the Small Business Sub-class.
Reduction Programs	Mandatory	• Reductions to the farmland awaiting development 1st subclass.
Seniors Tax Rebate Program	Discretionary	• Continue existing program as approved by Council (Report FCS18005). • 2023 updated rebate amount = $223 (2022 amount of $210 + CPI). • Increase assessment threshold to $500,600 (120% of the updated City-wide average assessed value for a single-family dwelling). • Increase income threshold to $41,180 (150% of updated Guaranteed Income Supplement for a couple).

Tax Policy Tool	Mandatory vs. Discretionary	Recommendation
Deferral of Tax Increases Program	Mandatory	• Continue existing program as approved by Council (Report FCS18005). • Update income threshold to $41,180 (150% of updated Guaranteed Income Supplement for a couple).
Full Tax Deferral Program	Discretionary	• Continue existing program as approved by Council (Report FCS18005(a)). • Update income threshold to $41,180 (150% of updated Guaranteed Income Supplement for a couple). • Application fee: $200+HST; Interest at 5.5% per annum.
Area Rating	Discretionary	• Area rating based on the Council approved (April 2011) Urban / Rural model (Reports FCS09087 / FCS09087(a) / FCS11042). • Fire Urban / Rural boundaries updated in 2020 (Report HSC19026). • Area rating updated in March 2022 and February 2023 through Reports FCS21078(b) and FCS21078(d), respectively. • Appendix “A” to Report FCS23049 identifies the area rated levies for 2023.
Rebates to Charities and Similar Organizations	Mandatory	• Continue with existing program. • 40% rebate for charities. • 100% rebate for accredited educational institutions that rent their property. • 100% rebate for Veteran’s Clubhouses and Legion Halls that would otherwise be tax exempt.

Tax Ratios

Tax ratios distribute the tax burden across the property classes relative to the Residential property class tax ratio, which is set at 1.0000. For example, a property in a property class with a tax ratio of 2.0 would pay twice the amount of municipal tax as a similarly valued residential property. Tax ratios must be set within flexibility ranges determined by Provincial regulations.

Table 4 identifies the recommended 2023 final tax ratios compared to the 2022 final approved tax ratios and the Provincial thresholds.

Table 4
Recommended 2023 Tax Ratios

	2022 Final Tax Ratios	Recommended 2023 Final Tax Ratios	Provincial Threshold
Residential	1.0000	1.0000	
Multi-Residential	2.3594	2.2174	2.0000
Commercial	1.9800	1.9800	1.9800
Industrial	3.1985	3.1025	2.6300
Industrial - Large	3.7506	3.6381	2.6300
Pipeline	1.7947	1.7947	
Landfills	2.9696	2.9696	3.1189
Farm	0.1767	0.1767	

As shown in Table 4, the Multi-Residential tax ratio has been reduced from 2022 in order to comply with the Provincial legislation that prevents municipalities with multi-residential tax ratios above 2.0 to pass any reassessment related increases and any budgetary increases onto the Multi-Residential property class.

The Industrial property class continues to be levy-restricted as the City's tax ratio is above the Provincial Threshold and as a result, the 2023 tax ratio has also been reduced from the 2022 tax ratio.

Levy restrictions result in an additional 0.6% or $4.2 M tax shift to the Residential property class.

Staff is recommending that the 2022 tax ratios for all other property classes be maintained in 2023 as detailed in Recommendation (b) of Report FCS23049.

Residential Tax Impacts

The final residential average tax impacts, as identified in Appendix "B" to Report FCS23049, are the result of various factors:

- 2022 assessment growth (Report FCS23025);
- 2023 approved tax operating budget (Report FCS23007(a));
- Updated area rating methodology as per Reports FCS21078(b) and FCS21078(d);
- Postponement of the new reassessment cycle until at least 2024;
- Reassessment and provincial levy restrictions on the Multi-Residential property class;
- Provincial levy restriction on the Industrial property class;
- Tax policies as recommended within Report FCS23049; and
- Education tax as prescribed by the Province of Ontario.

Although the Residential City-wide average total impact is 5.8%, due to the various factors identified above, the impacts will vary between wards and between area rating scenarios. While the changes in area rating account for the differences between urban and rural areas for transit and areas receiving full time, volunteer or composite fire service, budget pressures and enhancements in other area rated services may also have a greater impact on some wards than others. Appendix "A" to Report FCS23049 identifies the area-rated levies.

The factors identified below explain the different tax impacts across the City. Tax impacts are shown in Appendix "B" to Report FCS23049.

Area Rating

Area rating is a municipal property taxation policy tool permitted by the Provincial government intended to account for either significant differences in service levels or differences in the cost of providing services across different parts of the City. The result of area rating is that tax rates for certain services vary depending on where a property is located and the level of service offered by the City. Changes to area rating policies are revenue neutral, however, they result in a re-distribution of taxes based on the changes.

On March 30, 2022 through Report FCS21078(b), "Area Rating Review", staff presented recommendations on the phase elimination of Sidewalk Snow Removal, Sidewalks, Streetlighting, Recreation and Parkland Purchases as area rated services on the basis that these services do not meet the legislative criteria of having different service levels across the City. Council approved the following changes to area rating:

(a) That the area rating of Sidewalk Snow Removal be eliminated in the 2023 tax year;
(b) That the area rating of Sidewalks and Streetlighting be eliminated in a four-year phase-out period starting in the 2022 tax year;
(c) That the area rating of Recreation be eliminated in a four-year phase-out period starting in the 2022 tax year;
(d) That the area rating of Parkland Purchases be eliminated once the existing internal debt has been paid off.

Following Council approval in 2022, the area rating of Sidewalk Snow Removal has been eliminated which results in a tax benefit to the wards within the former municipality of Ancaster (portion of Wards 12 and 14). In addition, 2023 is year two of the four-year phase-out of the area rating of Recreation, Sidewalk and Street lights. All the wards are affected by this change.

Full payment of previously purchased parklands also results in a tax benefit for the urban and rural wards within the former municipality of Dundas (Ward 13) as the internal loan for the property located at 2555 Creekside Drive has been paid off. Wards located within the former Hamilton also benefit from the repayment of internal loan for lands located at 155 East 26th Street.

For the 2021 tax year, through an amending motion dated May 12, 2021 and for the 2022 tax year, through Report FCS21078(b), Council approved a transfer from the Tax Stabilization Reserve in the amount of $1.4 M to be applied to the rural fire levy in order to mitigate the tax impact resulting from 5,800 properties that were reclassified from rural fire to urban fire due to a change in the level of service. The transfer from reserve will no longer apply in the 2023 tax year and, therefore, the levy allocated to the volunteer area (formerly "rural area") will increase by $1.4 M. This 2023 budget pressure has been included within the 2023 Tax Operating Budget documents approved through Report FCS23007(a).

On February 17, 2023, though Report FCS21078(d), Council approved to change the area rating of the Fire Service to a "Full Time / Composite / Volunteer" model in order to align the taxation policy with the service delivery model. Although changes to area rating are overall revenue neutral, the redistribution of properties and the consequent redistribution of the costs among the three areas resulted in tax shifts affecting properties differently:

- Properties that receive full-time service are experiencing a tax increase which will be phased-in over a two-year period;
- Properties that previously paid for full-time service but receive composite service are experiencing a tax decrease which will be phased-in over a two-year period;
- Properties that receive volunteer service are experiencing a tax decrease which is reflected entirely in 2023;
- Properties that previously paid for volunteer service but receive composite service are experiencing a tax increase which is reflected entirely in 2023. Council approved a transfer from reserve of up $200,000 in order to have the tax impact fully phased-in in 2023.

The tax shifts resulting from year two of the phase-out of the recommendations approved in 2022 and the changes to the area rating of the fire service approved in 2023 are included in the tax impacts by ward presented in Appendix "B" to Report FCS23049.

Transit

The Transit levy increased from $70.5 M in 2022 to $76.6 M in 2023 and overall kilometres increased from 17.9 million in 2022 to 18.5 million in 2023. Area rating of Transit is determined using actual kilometres of transit service which varied from prior years due to COVID-19. The tax impact tables reflect service levels similar to pre-COVID-19.

It is important to note that while Transit is an area rated service, the impacts of changes in the costs and level of service are included in the "Budget" column of the tax impact tables as no changes to the methodology have been introduced.

Wards located within the former municipality of Glanbrook (portions of Wards 9, 11 and 14) show a higher budget related tax impact due to the additional service on Route 20-A Line to service the Airport and Route 22 to service the Red Hill Business Park. In contrast, wards located within the former municipality of Flamborough (portions of Wards 12, 13 and 15) have a lower budget related tax impact as a result of the significant assessment growth in those wards which offsets the increase in allocated costs.

Budget related tax impacts in the wards located within the former municipalities of Ancaster, Dundas and Stoney Creek vary as a result of the phase-in of previously approved changes. The former City of Hamilton does not have significant changes in the levels of service for 2023.

Pipelines Tax Class

On February 27, 2023, the General Issues Committee approved the following motion:

> “That staff be directed to report back on the options to increase the tax rate on the Pipeline class, thereby decreasing the burden on other property classes, including residential”.

The Ontario Government, through O. Reg. 386/98 has set the “Allowable Ranges for Tax Ratios” also known as “Range of Fairness” in which the range for the Pipeline property class is set between 0.6 to 1.1 of that of the Residential property class. The City’s current tax ratio of the Pipeline property class is 1.7947.

According to Provincial legislation, where a tax ratio or the previous year’s tax ratio falls within the ranges of fairness, the municipality may move the tax ratio anywhere within the range. Where the tax ratio, or the previous year’s tax ratio falls outside the range, the municipality may keep the existing tax ratio or move it closer to the range. Municipalities may not move tax ratios further away from the range than the tax ratio of the previous year, except if permitted by Provincial regulations.

Since the existing ratio of 1.7947 is above the range, the City will need Provincial authorization to increase the tax ratio above the existing level. Staff will connect with internal and external stakeholders and will do the necessary research and analysis to report back to Council in anticipation of the 2024 taxation year.

ALTERNATIVES FOR CONSIDERATION

N/A

ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN

Economic Prosperity and Growth
Hamilton has a prosperous and diverse local economy where people have opportunities to grow and develop.

Healthy and Safe Communities
Hamilton is a safe and supportive City where people are active, healthy, and have a high quality of life.

Built Environment and Infrastructure
Hamilton is supported by state-of-the-art infrastructure, transportation options, buildings and public spaces that create a dynamic City.

APPENDICES AND SCHEDULES ATTACHED

Appendix “A” to Report FCS23049 – 2023 Area Rated Levies Summary

Appendix “B” to Report FCS23049 – 2023 Total Residential Tax Impacts